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Correspondence Memorandum

Date: May 6, 2024

To: Group Insurance Board

From: Renee Walk, Programs and Policy Unit Director
Office of Strategic Health Policy

Marie Ruetten, Deputy Administrator
Division of Trust Finance

Subject: 2025 Group Health Insurance Program Rates and Reserves

The Department of Employee Trust Funds (ETF) recommends that the Group Insurance Board (Board) approve the recommended health, pharmacy, and dental rates presented by the Board's actuary, Segal, for plan year 2025.

ETF requests Board approval to make any additional, minor adjustments to health plan service areas after they are finalized.

Background

The Board has historically set annual rates at their August meeting prior to the beginning of the rate year. 2025 is the first year following the Board's decision to move the rate setting cycle earlier to accommodate programming needs in the new Insurance Administration System (IAS). This memo summarizes the rate setting process, discusses challenges posed by the continued expansion of the State Maintenance Plan (SMP) in the Local group, and provides options for the Board for funding the reserves going forward.

Negotiations Process

Despite the schedule moving up three months, ETF followed roughly the same annual process for setting rates: preliminary bids and utilization data were submitted by health plans, and bid tools were submitted by the pharmacy and dental benefit administrators. Segal, the Board's actuary, analyzed this information and provided tiering recommendations (see Attachment C). ETF met with the health plans regarding their tier placement and needed changes to achieve Tier 1 in the State and Local programs. Plans then submitted their best and final offers (BAFOs).

Plans bid on specific counties in which they wished to operate; currently, if a plan wishes to be offered in a county, the plan must be offered in both the State and Local program. The tiering of the plan's rate, however, does not have to be the same.

Health Plan Financial Status
As part of ETF's due diligence in qualifying health plans for participation in the Group Health Insurance Program, ETF has verified the financial condition of participating health plans. ETF relied on the Office of the Commissioner of Insurance (OCI) to confirm each participating company's financial position. OCI confirmed all insurers meet Wisconsin's minimum financial requirements.

County Qualifications
The State program continued to see only one county with no qualified Tier-1 health plan (Florence County). SMP will be available in this county; subscribers are also able to select other plans, including those qualified in surrounding counties.

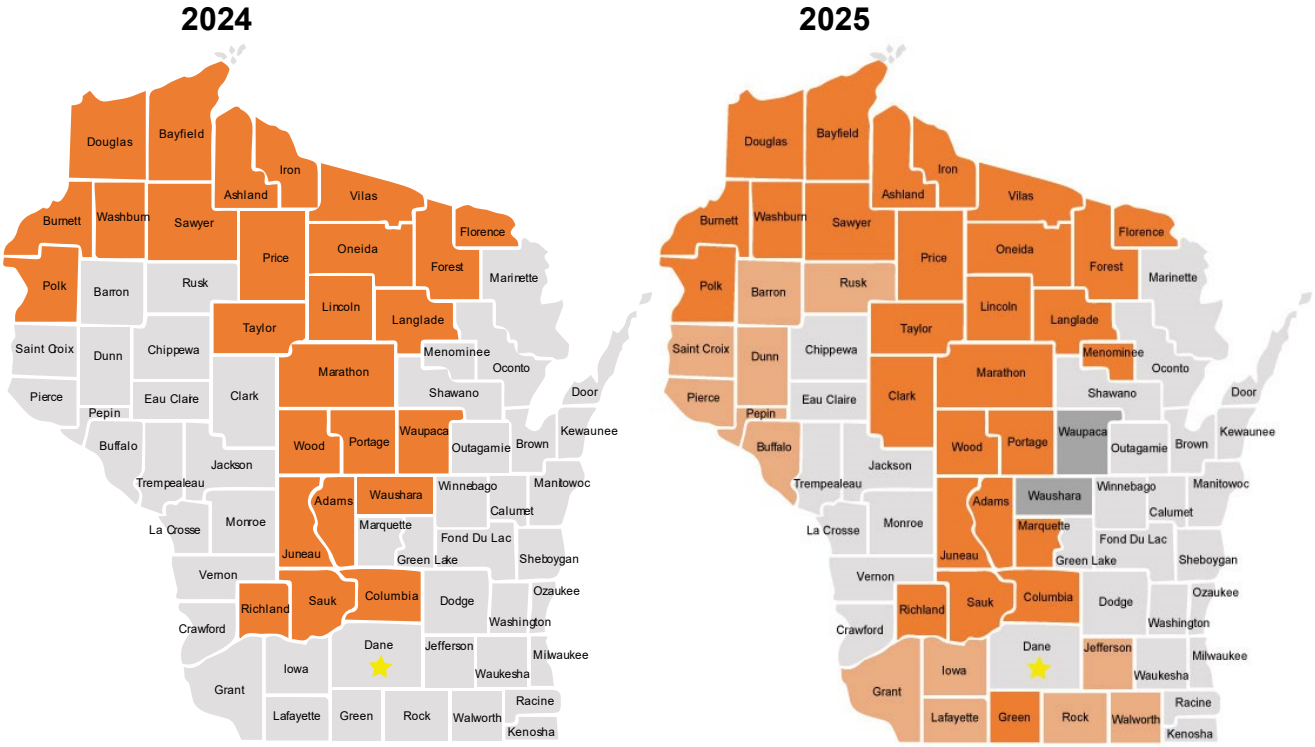
For 2025, Local program SMP counties continued to increase. This year, only four health plan networks had rates that were Tier 1. Because of this, Local SMP counties increased again, this year to 41. The new Local SMP counties include:

- Barron.
- Buffalo.
- Dunn.
- Grant.
- Iowa.
- Jefferson.
- Lafayette.
- Pepin.
- Pierce.
- Rock.
- Rusk.
- St. Croix.
- Walworth.

This will result in approximately 7,000 Local members newly eligible for SMP, which is more than the number of newly eligible members resulting from the addition of 26 SMP counties in 2024. Two counties (Waupaca and Waushara) that offered SMP for the Local program last year now have a Tier 1 qualified health plan and will no longer offer SMP.

Figure 1 shows the different SMP counties in 2024 and 2025.

Figure 1. State Maintenance Plan Counties in 2024, 2025



Lighter orange counties in the 2025 map will be new SMP in 2025. Gray counties were SMP in 2024 but will not be in 2025.

Access/SMP Risk-Sharing

The Access and SMP plans are administered by a single vendor. Prior to 2023 this vendor was WEA Trust. After WEA Trust's departure, Dean Health Plan (Dean) was awarded the contract for these programs. The Access/SMP contract includes an agreement whereby if loss ratios are lower than 90%, the vendor credits 50% of the excess premium amounts to the Board and If loss ratios are above 90% the Board pays 100% of the premium deficiency. WEA Trust reported excess premiums in most years, but first reported a premium deficiency from 2022. The wording of the contract at that time carried the premium deficiency forward as an offset to any future retrospective adjustments. Because WEA Trust left the health insurance market the next year, the Board was not required to issue any payments and there were no premiums to adjust.

In 2023, the Program Agreement was revised to make any premium deficiency payable no later than 120 days from the end of the plan year for which the deficiency is assessed. Dean has calculated, and ETF has reviewed, a premium deficiency for plan year 2023, currently estimated at $9.2 million. Claims runout is not yet complete for 2023; Dean will calculate a final amount in June, which will validated and then paid as a retrospective premium adjustment.

While this contract condition has proved helpful in recruiting and retaining a vendor to serve one of the Board's more volatile lines of business, the uncertainty and size of payments due is concerning. ETF is evaluating the benefit of including this term and may revise it in future Access/SMP contracts.

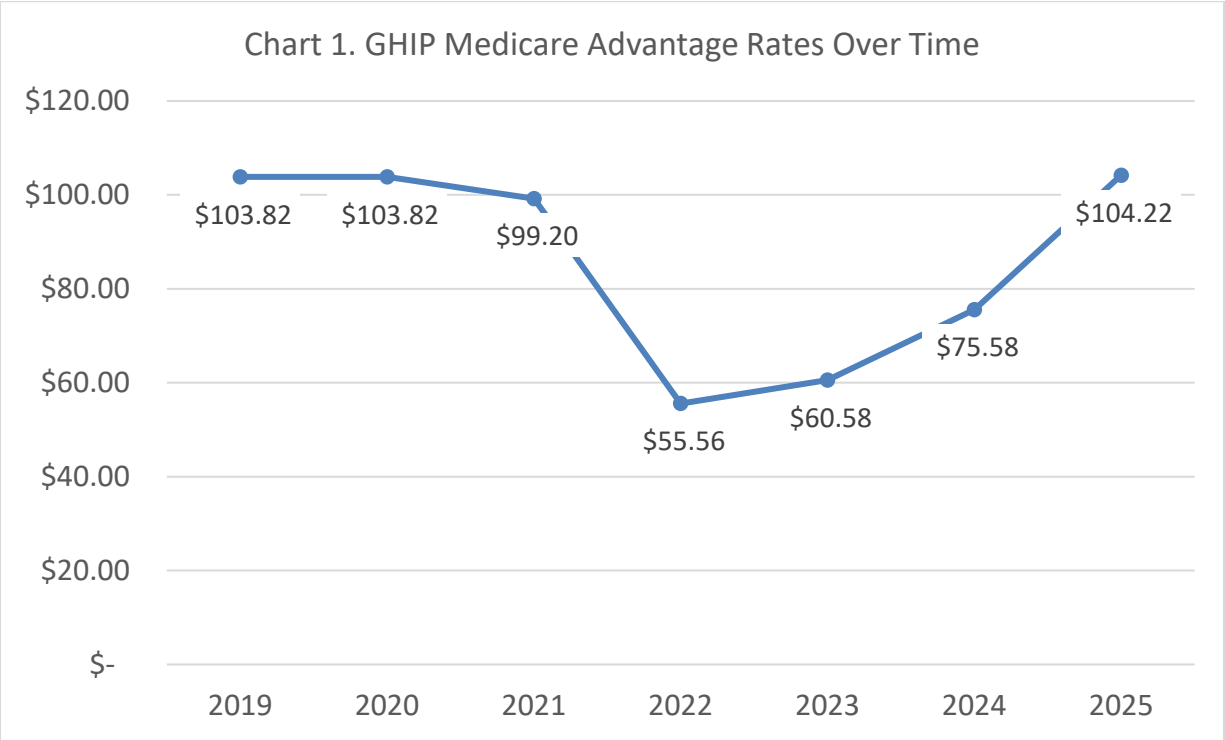
Reserve Balances
Segal considers the reserve balances as part of the rate setting process. They use prior year reserve balances, as well as activity that has occurred in the current year, to project reserve balances through the following year. This informs the Board of a projected reserve surplus or deficit to assist in deciding the use of reserves in premium setting.

Preliminary health insurance program reserve balances as of December 31, 2023, are shown in Attachment A. Actual balances are significantly lower than projected during 2024 rate setting and remain below the target despite favorable investment returns, primarily as a result of larger than anticipated pharmacy claims.

Administrative Fees
To cover ETF's cost of administering the GHIP, a fee is calculated and added to the insurance premium billed to employers and retirees. A history of this fee is shown in Attachment B. The 2025 fee increased by 13%, primarily due to costs associated with the IAS implementation.

2025 Rates
Medical BAFOs increased an average of 6.8%. The State program's overall increase was 6.2%. The Local program again experienced higher rate increases than State, with the overall Local program increase averaging 10.2%. As members of the Board have noted in the past, these numbers may vary from the trends reported in the quarterly data warehouse dashboard memos (Ref. GIB | 05.23.24 | 10H), particularly in the case of the Local program. For the Local program, this may be caused in part by the smaller Local pool and greater volatility of the program, with plans rating for greater uncertainty in risk.

The Medicare Advantage increase for both State and Local members was 37.9%. This results in an actual dollar increase of $28.64 per member per month. While the Medicare Advantage increase is high, the product remains the lowest-cost Medicare plan option, and the increase results in a rate that is only slightly higher than the initial rate offered to members when the program began in 2019.



The overall pharmacy component of rates went up for both State and Locals, 10.6% and 11.5% respectively. This increase is more aligned with the increases seen in the dashboards, though there will be some variation as rebates are settled and returned to the Board. The active employee group's increase in each population exceeded the Medicare population's by more than 3%. The dental component of rates went up for all populations by 2%.

Impact to Member Premiums
Given the number of health plans, plan designs, employers, and county tiering calculations, it is challenging to provide one number or set of numbers to quantify the premium increase that will be directly experienced by members.

For active employees in the State program, the Division of Personnel Management at the Department of Administration sets a fixed premium share for employees. That calculation is based on the average premium, weighted by the number of employees in each plan. This means that premium share increases will typically correlate with the increases projected for the non-Medicare portion of the State program. This year, the average increase for this group is 5.8%.

For active employees in the Local program, Segal and ETF provide calculations of the maximum allowable premium share (excluding collectively bargained employees) through what are called the 88% tables. The 88% tables provide a calculation of 88% of the average premium of all Tier 1 health plans in a county. Under state law, employers cannot pay more than this toward their employees' insurance, regardless of the plan the

employee picks. Tier 1 premium increases for the Local program ranged from 6% to 7.9% for non-SMP plans. These increases will impact the 88% table calculations, but the specific impact to employee premiums will be determined by each individual employer.

Medicare-enrolled retirees in both the State and Local programs pay any changes in their premiums directly, and so would experience the specific rate increases from the plans they have chosen. Rates for the Medicare coordinated plans experienced at the same rates as the active plans. Increases for State premiums ranged from 0.8% to 15%, and Local premium increases ranged from 1.6% and 30.6%. Medicare Advantage, as mentioned earlier, will increase 37.9% and Medicare Plus increased 5%. Despite the large relative increase, Medicare Advantage remains the lowest-cost plan option for retirees.

Local SMP Rates

Significant changes in Local SMP enrollment over the past two years, coupled with the earlier rate setting schedule, present challenges to premium setting for this group in 2025. The most recent complete year of health insurance claims (2023) had a fraction of the number of members who enrolled in 2024, again due to the large increase in SMP counties. Experience data is not yet available for this much larger group of SMP members in 2024. In addition, ETF expects even more growth in SMP in 2025 with the addition of 11 more Local SMP counties. Also, given the order of rate negotiations, Dean was not aware of the addition of 11 counties until after submitting their bid, and will not know how many additional members they will have in SMP for another eight months. Given this lack of information, and the year-over-year increase cap included in Dean's program agreement, Segal and ETF were concerned that the rate bid proposed by Dean could not be sufficient to cover claims, which could potentially leave the Board liable for another large settlement in 2025.

Local SMP Rate Options

To avoid a large settlement for program year 2025, the Board has three options:

- Local SMP Option 1: Pay Dean a higher rate increase than requested. Dean limited their increase to 8.4% as dictated by the terms of their agreement, but ETF, Segal, and Dean agree that this is likely not enough to price the SMP adequately given what is known about the risk. ETF and Segal believe that a 15% increase may be needed to cover claims. However, as described earlier, the risk sharing agreement in their contract only returns 50% of premium dollars in excess. This means that, if the SMP performs better in 2025, the Board will only receive half of the additional premium back. The Board could simply pay Dean the recommended higher rate of 15%, however, the program agreement only requires Dean to return 50% of premium dollars in excess of claims.
- Local SMP Option 2: Add a Plan Stabilization Charge (PSC) to the Local SMP premium. This type of charge is described under Section 101 B of the Local Employer Health Insurance Standards, Guidelines, and Administration Manual

(ET-1144). It is intended to add funds to the plan stabilization reserve if there are concerns about uncertain risk in the group. The Board could pay the rate bid by Dean, but charge members the full 15% increase proposed. The Board would keep the difference in the reserve fund and would use that money to pay money owed if a loss for plan year 2025 occurs. If the Local SMP performs better than expected, this money would remain in the Local reserve to offset future losses and help to rebuild the reserve fund from loss settlements paid in prior years. This would result in higher employer share calculations for SMP counties in the 88% tables, described above. If the Board opts for the reserve options below that contain stabilization charges across the local program, this option would reduce the percentage increases stated below by 0.1%.

- Local SMP Option 3: Make no changes to the Local SMP rate; adjust overall Local rate. The Board could also opt to charge only the 8.4% increase rate to members who choose the Local SMP and rely on the general stabilization charge provided for by the reserve funding and rate options below to fund the increase. This would result in an additional 0.1% premium stabilization charge increase across the Local program (reflected by the percentages in the options below).

ETF recommends the Board adopt Option 3. The change in the general premium stabilization increases proposed below is small versus the impact to the Local SMP rate. Further, gains shared with the previous health plan, WEA Trust, benefited the entire pool and were not specifically allocated to Access and SMP members. An inflated Local SMP rate will impact the 88% premium calculations done by Local employers to determine their premium share, increasing the amount of required contributions by Local employers. However, if the Board opts not to add a general stabilization increase, such as those provided in Options 2, 3, and 4 below, ETF recommends Option 2 above to ensure funding for the Local program reserve.

Overall Rate and Reserve Options

The Board approved 2024 reserve and premium Option 1, which included a 0.8% stabilization increase above the projected premium increase to make up reserves in plan year 2025. At that time, however, the projected premium increase was 5%. As discussed earlier in this memo, the premium increase will be nearly 7% on average, and reserves are also $20M lower than projected. This means that there remains no additional reserve funding available to subsidize the larger increase, and that the 0.8% additional stabilization increase will likely not be sufficient to return reserves to the midpoint of the range by the end of 2026.

If the Board opts to apply a Local SMP PSC, this charge would apply before additional stabilization increases are applied.

Given these changes, ETF and Segal provide the following four options for Board consideration:

- Rate Option 1: Accept the premium increase with no stabilization increase. State increases would average 6.9% (varying by product/business line and inclusive of dental, pharmacy, and administrative fees) and Local increases would average 10.4%. Future year increases would include stabilization increases to bring the reserves back to the target funding range.
- Rate Option 2: Add a stabilization increase to State and Local rates, with a target of reaching the low end of the reserve range. This would result in a 7.5% aggregate increase for State rates and a 11.0% increase for Local rates. This approach risks missing the reserve target range set by the Board's policy, should investment returns underperform, or the self-insured products incur greater-than-anticipated costs, and is a less-aggressive approach than 2024's Option 1. However, it acknowledges the higher base medical premium increases and could allow the Board to ease those costs over a longer period for members.
- Rate Option 3: Add a stabilization increase to State and Local rates, targeting the midpoint of the reserve range by 2026. This approach follows 2024's Option 1 as approved by the Board and would result in an 8.5% overall increase for State rates and a 12.0% overall increase for Local rates. This approach is less likely to result in the Board's reserve fund failing to return to the range set by policy, though the same factors mentioned above will impact where in the range funding levels will land. It is a more aggressive premium approach and will result in more significant increases for employees and employers.
- Rate Option 4: Add a stabilization increase to State and Local rates, targeting the midpoint of the reserve range by 2027. This approach targets reserve funding according to the Board's policy and stated intentions in 2024 but provides an additional year to smooth overall increases experienced by members. Increases to the State program would average 7.7% in 2025, and in the Local program would average 11.2%.

ETF recommends that the Board choose Rate Option 4, given the current funding levels of both reserve funds, future potential liabilities, and the Board's previously approved reserve fund policy.

Staff will be at the Board meeting to answer any questions.

Attachment A: Health Insurance Program Reserves

Attachment B: Health Insurance Administrative Fee History

Attachment C: "2025 Health Plan Service Area Qualifications" from Segal

Attachment A
Health Insurance Program Reserves

State (in Millions)

Health Reserves	Medical [2]	Wellness	Pharmacy	Dental	Total [1]	% change from prior year
Fund Balance, January 1, 2023	$81.0	$3.8	$37.3	$23.0	$145.2	-31.0%
Investment Income	$5.7	($0.1)	$3.8	$1.1	$10.4	142.8%
Contributions	$1,269.0	$11.5	$218.3	$61.2	$1,560.0	4.6%
Benefit Expense	($1,261.5)	($7.8)	($312.1)	($59.7)	($1,641.1)	9.6%
ETF Administrative Expense [3]	($19.4)	$0.0	$0.0	$0.0	($19.4)	23.6%
TPA Administrative Expense	($0.9)	($6.2)	($10.5)	($1.2)	($18.8)	1.6%
Fund Balance, December 31, 2023	$74.0	$1.2	($63.3)	$24.4	$36.3	-75.0%

Local (in Millions)

Health Reserves	Medical [2]	Wellness	Pharmacy	Dental	Total [1]	% change from prior year
Fund Balance, January 1, 2023	($4.1)	$0.4	$18.0	$0.1	$14.4	-16.3%
Investment Income	$0.0	$0.0	$1.5	$0.0	$1.4	158.3%
Contributions	$211.5	$1.6	$40.2	$2.4	$255.7	12.5%
Benefit Expense	($211.7)	($1.2)	($42.9)	($2.5)	($258.2)	15.4%
ETF Administrative Expense [3]	($2.7)	$0.0	$0.0	$0.0	($2.7)	28.6%
TPA Administrative Expense	($0.1)	($0.9)	($1.0)	$0.0	($2.0)	0.0%
Fund Balance, December 31, 2023	($7.1)	$0.0	$15.8	($0.1)	$8.6	-40.3%

(1) Amounts may not foot due to rounding.
(2) Medical benefit expense reflects premiums paid to health insurance plan providers, including two plans that are retrospectively rated in which premiums are accrued based on the estimated ultimate cost of the experience.
(3) ETF administrative expense allocated to medical only.

Attachment B
Health Insurance Administrative Fee History